

**MULTISECTOR GLOBAL FINANCING PROGRAM**

**(CH-0157)**

**EXECUTIVE SUMMARY**

**BORROWER:** Republic of Chile

**EXECUTING AGENCY:** Corporación de Fomento de la Producción (CORFO)

**AMOUNT AND SOURCE:**

IDB: (ordinary capital)	US\$240,000,000
Local counterpart funding:	US\$160,000,000
Total:	US\$400,000,000

**FINANCIAL TERMS AND CONDITIONS:**

Amortization period:	20 years
Commitment period:	3 years
Disbursement period:	4 years
Interest rate:	variable
Inspection and supervision:	1%
Credit fee:	0.75% on the undisbursed balance
Currency:	United States dollars from the Bank's Single-Currency Facility

**OBJECTIVES:** The proposed operation will provide medium and long-term financing for financially and economically viable projects undertaken by SMEs in the private sector. It represents the continuation of support under a credit facility created through a similar, earlier program that was financed in part by the Bank. The funding to be provided will comply with the additionality criterion, i.e. will not be used as a substitute for financing available from other sources.

**DESCRIPTION:** The program is intended to provide a responsive and flexible source of financing to enable SMEs to obtain medium and long-term funding for investment and related working capital requirements. Resources from the facility may be used to finance: (i) investments such as machinery, equipment, installations, construction, plantations and services associated with such investments; (ii) working capital associated with a project, most of which would be covered by the local counterpart contribution; (iii) financing lines in support of commercial leasing, both financial and operating; and (iv) exports.

Private SMEs will be defined as those with annual sales of up to US\$30 million. Borrowers will not be allowed to exceed a total outstanding balance equivalent to US\$5 million.

CORFO would use the program funds to make loans to banks and leasing companies that qualify as intermediary financial institutions (hereafter IFIs), in accordance with the program's credit regulations. The IFIs will in turn use these funds to finance

eligible investments.

Loans to the IFIs would be denominated in local currency, indexed to UFs (Unidades de Fomento) or US dollars. The borrower will assume the exchange risk between the US dollar, the currency in which the Bank loan will be denominated, and operations denominated in UFs. Interest rates on loans to the IFIs will be variable or fixed. In the latter case, the Bank will be advised of the procedure for determining the spread of fixed rates over variable rates before any loans of this kind are made, and the application of this procedure, as well as any subsequent amendments thereto, must carry the concurrence of the Bank.

Loans provided by CORFO to the IFIs will be allocated under the following procedures: (i) leasing operation funds will be awarded at auction, according to the best rates offered for each term; and (ii) other transactions will be discounted at market rates, in accordance with their term and currency. The cut-off rate for bids will be set not lower than average market lending rates. The Bank will be advised of the procedure for setting these rates before the first bids are called, and its application, as well as any subsequent amendment, must have the Bank's concurrence.

**ENVIRONMENTAL  
REVIEW:**

The Environment and Social Impact Committee (CESI) reviewed and approved this operation at its meeting of November 13, 1998. The CESI recommendations have been included in the proposed loan and the credit regulations (paragraphs 2.32, 2.33, 3.31 and 3.32). Mechanisms have been set up to identify projects with potential environmental impact, and the credit regulations exclude the procurement of goods involving technologies that pollute. Since the operation is targeted to SMEs, social impact will be positive.

**BENEFITS:**

The additional resources to be provided under the proposed program will facilitate financing for SME investment projects, and this will have a significant impact on increasing output and employment. The availability of medium and long-term funds will provide an incentive to the financial system to grant credit to SMEs, thereby allowing them to strengthen and expand their operating capacity and introduce modern technologies into their productive processes. In addition, it will help the IFIs to diminish the current mismatch between sources and applications of funds.

The program takes on particular importance in the current situation, as the supply of loanable funds for SMEs at appropriate terms is declining. By bringing the allocation of credit more closely into line with the operating realities of participating IFIs, and adopting new IFI selection criteria, the program will help make better use of financial resources in fulfilling program objectives.

**RISKS:**

Any disruption of the current macroeconomic context

of price stability, as a result of exogenous factors, could discourage investment and the demand for credit, and could act as a disincentive for the financial system to grant loans to the target group.

Nevertheless, the national government's commitment to the principles of a free market and an open economy, and its determination to maintain current policies, should considerably reduce the prospects for any such change, even under the pressure of external economic events.

**THE BANK'S  
COUNTRY AND  
SECTOR STRATEGY:**

The proposed program is consistent with the Bank's 1996-1998 strategy for Chile, one priority of which is to finance programs aimed at expanding productive investment in the private sector and enhancing its export capacity through gains in competitiveness.

In this context, the government intends to strengthen the availability of medium and long-term credit for small and medium-sized enterprises. The present operation will support this government objective, by expanding and consolidating the progress made under the previous multisector credit program, with respect to both the expansion of financing and the consolidation of support for the target group.

**POVERTY  
TARGETING AND  
SOCIAL SECTOR  
CLASSIFICATION:**

This program is not poverty-targeted.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

Prior to the first disbursement: (i) the borrower must issue appropriate legal regulations to establish the conditions for transferring funds to CORFO, and the obligations of both parties (paragraph 3.1); and (ii) CORFO must submit evidence that the credit regulations agreed with the Bank are in force (paragraph 3.5).

Within 12 months after the first disbursement by the Bank, the borrower and the Bank must review the program objectives and achievements and the interest rates applied to subloans (paragraphs 3.39 and 3.40), as well as the environmental assessment and control procedures (paragraph 3.32). The disbursement schedule will be as indicated in paragraph 3.38.

The borrower has requested that the Bank recognize expenditures (lending) incurred since October 27, 1998 and anticipated prior to approval of the financing. The project team considers that the Bank could recognize up to US\$41.6 million as part of the local counterpart contribution (paragraph 3.45).

**EXCEPTIONS TO  
BANK POLICIES:**

None.

**PROCUREMENT:**

Not applicable.